

Northeast Group (NE MK)

FY25: Above Expectations; Still Ample Runway For Growth

Highlights

- Results beat expectations thanks to strong-than-expected loadings from the semiconductor and photonic industries.
- Despite a sharp 243% rally since Apr 25, the stock still screens attractive at 19x forward PE – among the cheapest listed integrated engineering solution providers.
- We continue to like its resilient growth trajectory, inelastic demand profile despite policy overhangs, and improving momentum across key business lines. Maintain BUY. Target price: RM0.93.

FY25 Results

Year to 30 Sep (RMm)	4QFY25	qoq % chg	yoy % chg	FY25	yoy % chg
Revenue	36.3	15%	69%	119.6	33%
EBITDA	11.9	18%	182%	35.7	25%
Operating profit	9.8	22%	334%	27.4	33%
Finance cost	9.7	22%	416%	26.6	39%
Pre-tax profit	-2.6	-219%	132%	-6.0	-13%
Net Profit	7.1	0%	834%	20.5	49%
Core Net Profit	8.8	16%	110%	23.0	39%
Margins (%)	qoq ppt chg	yoy ppt chg	yoy ppt chg	yoy ppt chg	yoy ppt chg
Gross Profit	32.9	0.9	13.3	29.8	-1.9
EBITDA	27.1	1.6	16.6	22.9	0.1
PBT	26.6	1.7	17.9	22.2	1.1
Net Profit	24.2	0.2	4.7	19.2	0.9
Core Net Profit	32.9	0.9	13.3	29.8	-1.9

Source: NE, UOB Kay Hian

Analysis

- Above expectations.** Northeast Group (NE) chalked another record-high 4QFY25 core net profit of RM8.8m (+16% qoq; +110% yoy) since its listing, bringing FY25 core net profit to RM23.0m (+39%), which made up 112%/110% of ours and consensus full-year estimates respectively. The core numbers have been adjusted for the listing expenses of RM3.7m and unrealised forex gains of RM1.4m. The positive deviations to our results were due to stronger-than-expected loadings from the semiconductor and photonic industries.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	90.1	119.6	148.8	166.0	181.1
EBITDA	28.6	19.2	26.6	28.4	29.6
Operating profit	20.6	27.4	36.5	40.6	44.3
Net profit (rep./act.)	13.7	20.5	27.4	30.6	33.6
Net profit (adj.)	16.5	23.0	27.4	30.6	33.6
EPS (sen)	2.2	3.1	3.7	4.1	4.5
PE (x)	31.6	22.7	19.0	17.0	15.5
P/B (x)	3.3	2.0	1.8	1.6	1.5
EV/EBITDA (x)	15.4	19.9	12.9	10.2	7.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	18.3	19.2	18.4	18.5	18.5
Net debt/(cash) to equity (%)	(32.9)	(54.3)	(62.3)	(73.3)	(83.0)
Interest cover (x)	nm	nm	nm	nm	nm
ROE (%)	10.5	8.9	9.6	9.7	9.6
Consensus net profit			27.8	32.1	
UOBKH/Consensus (x)			0.99	0.95	

Source: NE, Bloomberg, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY (Maintained)

Share Price	RM0.705
Target Price	RM0.930
Upside	+31.9%

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Stock Data

GICS sector	Metalworking Machinery
Bloomberg ticker:	NE MK
Shares issued (m):	740.0
Market cap (RMm):	521.7
Market cap (US\$m):	126.3
3-mth avg daily t'over (US\$m):	2.0

Price Performance (%)

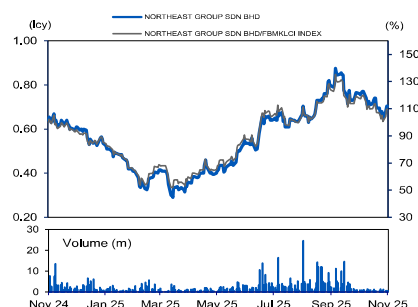
52-week high/low **RM0.875/RM0.29**

1mth	3mth	6mth	1yr	YTD
(7.2)	6.1	76.3	11.9	19.5

Major Shareholders

	%
Mountain Range	53.7
Ng Chay Chin	5.6
Chong Ewe Hean	3.5
FY25 NAV/Share (RM)	0.35
FY25 Net Cash/Share (RM)	0.21

Price Chart



Source: Bloomberg

Company Description

Principally involved in the manufacturing of precision engineering components used in the E&E, optoelectronics, photonics, semiconductor and telecommunications industries.

- FY25 revenue surged 33%** on the back of healthy loadings from its semiconductor and photonics customers. Meanwhile, core net profit (excluding listing expenses of RM3.7m) came in higher at 39% growth on the back of lower effective tax rate enjoyed by subsidiaries of the group. Revenue improved 15% qoq, driven by higher loadings from its semiconductor and photonics customers. Core net profit surged 16% on stable margins. We expect NE to continue to deliver better earnings ahead, following a two-year period involving: a) the restructuring of its major customer business structure, b) inventory adjustments, and c) product portfolio diversification. Current orderbook stood at RM45m which is 36% higher than last quarter.
- Strategic portfolio exposure spearheading growth.** Since its inception in 2004, NE has built strong relationships with its major customers which are prominent global listed players in the photonics, E&E, semiconductor, telco and optoelectronic industries. Actively engaged in research, development and product design with these partners, NE is leveraging key growth drivers based on increasing component orders related to: a) fibre laser application for material processing, e-mobility manufacturing and bio-medical fields; b) connectors, switchers and transceivers for telecom, AI and DC applications; c) base station/antenna technologies related to new generation cellular networks; and d) next-generation smart devices developed by world renowned technology players.
- Upping its ante to capture the next wave of growth.** Far from resting on its laurels, NE is actively advancing up the value chain, transitioning from a precision component manufacturer to an integrated engineering solutions provider at the sub-modular level. To drive this strategic shift, the group has unveiled ambitious expansion plans, including the construction of a new factory (expected to boost production capacity by 50% and targeted for completion by 2028) which will be outfitted with state-of-the-art CNC machinery, alongside the development of a dedicated warehouse facility. On the segment front, the group is positioning itself to seize emerging opportunities in the 6G wireless network, advanced cooling systems for data centres, and entry into new product markets. In the meantime, the group is also assessing the potential establishment of a US presence as a proactive measure to mitigate the impact of prolonged tariff headwinds and enhance its global reach.

Overview Of NE's Services



Source: Greatec, UOB Kay Hian

Overview Of NE'S Products



Source: Greatec, UOB Kay Hian

Utilisation Rate

Type of machines	No. of units	Estimated operating capacity (hours)	Utilisation rate (%)
CNC Milling	229	356,191	77.9%
CNC Turning	30	46,530	87.5%
CNC Automatic Lathe	12	20,130	96.5%
Total	271		

Source: Greatec, UOB Kay Hian

Valuation/Recommendation

- Maintain BUY with an unchanged target price of RM0.93** based on 25.0x FY26F PE (which is at a -25% discount to SPE's 7-year mean PE). We expect FY26 net profit to chalk up 19% on the back of cyclical recovery and growing relevance in its customers' technological advancement. This does not take into account the expansion pipelines in the next three years which could double its capacity and floorspace.

Earnings Revision/Risk

- None.

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2025F
Net turnover	119.6	148.8	166.0	181.1
EBITDA	19.2	26.6	28.4	29.6
Deprec. & amort.	8.2	9.9	12.2	14.7
EBIT	27.4	36.5	40.6	44.3
Associate contributions				
Net interest income/(expense)	0.0	0.0	0.0	0.0
Pre-tax profit	26.6	35.2	39.3	43.0
Tax	-6.0	-7.7	-8.6	-9.5
Minorities	0.0	0.0	0.0	0.0
Net profit	20.5	27.4	30.6	33.6
Net profit (adj.)	23.0	27.4	30.6	33.6

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2025F
Fixed assets	80.8	100.6	122.8	147.5
Other LT assets	25.0	25.0	25.0	25.0
Cash/ST investment	153.2	191.1	245.2	303.9
Other current assets	28.9	36.6	40.4	44.4
Total assets	294.9	360.4	440.5	527.9
ST debt	0.7	0.7	0.7	0.7
Other current liabilities	17.5	55.5	105.0	158.8
LT debt	5.2	5.2	5.2	5.2
Other LT liabilities	5.7	5.7	5.7	5.7
Shareholders' equity	259.1	286.6	317.2	350.8
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	294.9	360.4	440.5	527.9

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2025F
Operating	29.0	48.7	64.1	68.7
Pre-tax profit	26.6	35.2	39.3	43.0
Tax	-6.0	-7.7	-8.6	-9.5
Deprec. & amort.	8.2	9.9	12.2	14.7
Working capital changes	0.0	0.0	0.0	0.0
Non-cash items	2.2	-7.4	0.2	-2.8
Other operating cashflows	-1.2	-1.2	-1.2	-1.2
Investing	-21.3	-10.0	-10.0	-10.0
Capex (growth)	-21.7	-10.0	-10.0	-10.0
Investments	0.4	0.0	0.0	0.0
Proceeds from sale of assets	0.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	57.9	0.0	0.0	0.0
Dividend payments	0.0	0.0	0.0	0.0
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	-24.2	0.0	0.0	0.0
Others/interest paid	-2.4	0.0	0.0	0.0
Net cash inflow (outflow)	65.5	38.7	54.1	58.7
Beginning cash & cash equivalent	86.2	152.4	191.1	245.2
Changes due to forex impact	0.6	0.0	0.0	0.0
Ending cash & cash equivalent	152.4	191.1	245.2	303.9

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2025F
Profitability				
EBITDA margin	16.0	17.9	17.1	16.3
Pre-tax margin	22.2	23.6	23.7	23.8
Net margin	19.2	18.4	18.5	18.5
ROA	7.8	7.6	7.0	6.4
ROE	8.9	9.6	9.7	9.6
Growth				
Turnover	32.7	24.4	11.5	9.1
EBITDA	-33.1	38.8	6.8	4.2
Pre-tax profit	39.4	32.4	11.7	9.5
Net profit	49.5	33.6	11.7	9.5
Net profit (adj.)	39.4	19.3	11.7	9.5
Leverage				
Debt to total capital	4.3	3.5	2.9	2.4
Debt to equity	4.9	4.4	4.0	3.6
Net debt/(cash) to equity	-54.3	-62.3	-73.3	-83.0
Interest cover (x)	nm	nm	nm	nm

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